

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 222 (Delegate Mossburg, *et al.*)

Ways and Means

County Boards of Education - Professional Employees - Social Security Tax

This bill requires the comptroller to reimburse the governing body of each county for the payment of the employer's share of the Social Security tax for professional employees of the county board of education. This bill takes effect July 1, 1998.

Fiscal Summary

State Effect: General fund expenditures increase by \$213.7 million in FY 1999. Future year expenditures reflect increases in school employees' salaries. Revenues are not affected.

| (in millions) | FY 1999 | FY 2000 | FY 2001 | FY 2002 | FY 2003 |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| GF Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditures | 213.7 | 224.5 | 234.9 | 245.3 | 255.4 |
| Net Effect | (\$213.7) | (\$224.5) | (\$234.9) | (\$245.3) | (\$255.4) |

Note: () - decrease; GF - general funds; FF - federal funds; SF - special funds

Local Effect: State aid to local governments would increase by \$213.7 million in FY 1999. Expenditures are not directly affected.

Small Business Effect: None.

Fiscal Analysis

Background: Prior to fiscal 1994 the State reimbursed local school boards for a portion of the Social Security costs for eligible employees of the school boards. Eligible employees were primarily teachers, administrators, and professional employees associated with the instructional programs who were members of either the teachers retirement or pension systems and who were not funded through federal programs. The State share was equal to

6.13% of the Social Security Wage Base. With a Social Security tax rate of 7.65% of salaries, this translated into an 80% State share for eligible employees. In fiscal 1993, the last year in which the State made Social Security payments to the local boards, school systems reported total Social Security expenditures of \$218 million. Of this amount, State reimbursements totaled \$136 million or about 62.4%.

State Effect: Requiring the State to fund the entire employer share of Social Security contributions for professional employees of local school boards would increase State expenditures by \$213.7 million in fiscal 1999. This is based on an estimated professional salary base of \$2.8 billion and a 7.65% employer social security contribution rate. **Exhibit 1** shows the projected fiscal impact for fiscal 1999 through fiscal 2003.

Exhibit 1
Social Security Cost for Professional Employees

| Fiscal Year | Estimated Professional Salary Base | Social Security Contribution |
|-------------|------------------------------------|------------------------------|
| 1999 | \$2.79 billion | \$213,710,200 |
| 2000 | \$2.93 billion | \$224,458,100 |
| 2001 | \$3.07 billion | \$234,935,500 |
| 2002 | \$3.20 billion | \$245,257,200 |
| 2003 | \$3.33 billion | \$255,381,200 |

State funding of Social Security costs in fiscal 1999 may result in a smaller increase in local appropriations for education than currently forecast for fiscal 1999. Since State funding under the current expense and compensatory aid formulas in fiscal 2002 is based on average spending in the third and fourth preceding years, a smaller increase in fiscal 1999 local spending may reduce current expense and compensatory aid in fiscal 2002, thus offsetting some of the State Social Security costs in that year.

Local Effect: State aid to local governments would increase by \$213.7 million in fiscal 1999 and \$255.4 million by fiscal 2003. Local expenditures are not directly affected. However, by having the State pay the employer's share of Social Security costs for professional employees, local expenditures for primary and secondary education may be lower in the future than they would be under current law. This assumes that the local appropriations for the school systems would have been higher than required by the local maintenance of effort provision.

Information Source(s): Department of Legislative Services, Maryland State

Department of Education

Fiscal Note History:

First Reader - February 16, 1998

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